

Message Text

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ACTION SS-25

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P 101820Z JUN 77
FM AMEMBASSY KINGSTON
TO SECSTATE WASHDC PRIORITY 5756

C O N F I D E N T I A L SECTION 1 OF 3 KINGSTON 3064

EXDIS

FOR ARA ASSISTANT SECRETARY TODMAN ONLY

E.O. 11652: XGDS-1
TAGS: EFIN, PFOR, JM
SUBJECT: MEMCON FLETCHER/TODMAN, MAY 30, 1977

1. FOLLOWING IS DRAFT MEMORANDUM OF CONVERSATION COVERING
YOUR MEETING WITH MINISTER OF STATE FLETCHER.

2. BEGIN MEMCON: MEETING BETWEEN AMBASSADOR TODMAN, ASSISTANT
SECRETARY OF STATE FOR LATIN AMERICA AND CARIBBEAN AFFAIRS
AND RICHARD FLETCHER, MINISTER OF STATE FOR PLANNING AND
PROJECTS. DATE: MAY 30, 1977. LOCATION; JAMAICA HOUSE,
KINGSTON JAMAICA

3. MEETING BETWEEN PRIME MINISTER MANLEY AND PRESIDENT
CARTER

FLETCHER OPENED THE CONVERSATION BY SAYING HE HAD MET
BRIEFLY WITH THE PRIME MINISTER IMMEDIATELY FOLLOWING THE
BILATERAL DISCUSSIONS HELD THAT MORNING. THE PRIME
MINISTER HAD ASKED FLETCHER TO CONVEY THE MESSAGE
THAT HE WAS AGREEABLE TO MEETING WITH PRESIDENT
CARTER FOR LUNCH IN NOVEMBER. HE AGREED THAT THE
FINAL DATE SHOULD BE FIXED WITH AMBASSADOR RATTRAY IN
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WASHINGTON. FLETCHER ALSO NOTED THAT THE TIMING OF
THE PROPOSED MEETING IS GOOD SINCE JAMAICA WILL, IN
ANY CASE, HAVE TO UNDERGO AN ECONOMIC REVIEW IN
OCTOBER/NOVEMBER AND IT WILL BE USEFUL TO HAVE THE
MEETING TAKE PLACE AFTER THIS REVIEW IS COMPLETED.

4. THE IMF-AMBASSADOR TODMAN RAISED THE SUBJECT OF

THE IMF AND EXPRESSED SURPRISE THAT PRIME MINISTER MANLEY HAD DESCRIBED THE IMF POSITION AS BEING SO UN-COMPROMISING. HE ASKED IF THE IMF HAD MOVED AT ALL IN ITS NEGOTIATION POSITION. FLETCHER OBSERVED THAT THERE IS NO SUCH THING AS AN IMF POSITION-- THAT IN FACT THE IMF REPRESENTS A NUMBER OF VIEWS AND PERSONALITIES, RANGING FROM THOSE OF THE TECHNICALS TO THOSE OF THE MEMBERS OF THE MANAGING BOARD. HE NOTED THAT SOME IN THE IMF HAVE NO CONFIDENCE IN JAMAICA. FLETCHER ATTRIBUTED THIS TO THE FACT THAT JAMAICA HAS FAILED TO LIVE UP TO ITS PREVIOUS COMMITMENTS TO THE IMF, PARTICULARLY LAST YEAR WHEN IT RENEGED ON A COMMITMENT NOT TO EXPAND THE BUDGET. HE EXPLAINED THAT THIS PARTICULAR COMMITMENT HAD BEEN NEGOTIATED BY TECHNICIANS WHO HAD NOT BEEN TOO POLITICALLY SENSITIVE. THEY HAD FAILED TO CONSIDER THE SERIOUS CONSEQUENCES OF THEIR COMMITMENT DURING AN ELECTION YEAR.

5. FLETCHER SAID THAT TECHNICIANS WERE ALSO RESPONSIBLE FOR THE PRELIMINARY NEGOTIATION OF THE IMF STANDBY FACILITY LAST DECEMBER WHEN THOSE WITH GREATER POLITICAL SENSITIVITY WERE ENGAGED IN THE GENERAL ELECTION. WHEN THE ELECTION WAS OVER, THE 40 PERCENT DEVALUATION WHICH HAD BEEN AGREED TO WOULD HAVE INCREASED PRICES 40 PERCENT ON MOST CONSUMER ITEMS INCLUDING ESSENTIAL ITEMS FOR THE MASSES. THIS WAS POLITICALLY UNACCEPTABLE. THE GOVERNMENT THEN REACTED STRONGLY AND, IN THE PROCESS, SOME MUD WAS THROWN ON THE IMF, REFLECTING THE GOVERNMENT'S CONFIDENTIAL

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TRADITIONAL BELIEF THAT THE IMF DOES NOT HELP SOLVE ANY OF THE BASIC PROBLEMS SUCH AS THE TERMS OF TRADE.

6. NOW, FLETCHER SAID, THE GOVERNMENT HAS HAD TIME TO REORDER ITS PRIORITIES AND GAIN A FULLER APPRECIATION OF THE NATURE OF THE ECONOMIC PROBLEM. IT HAS COME UP WITH A DUAL EXCHANGE RATE, AN INCOMES POLICY (SOON), TIGHT IMPORT CONTROLS AND A PROGRAM TO ACCELERATE EXPORTS. THE REMAINING PROBLEM IS THE BUDGET WHICH IS VERY DIFFICULT TO SOLVE BECAUSE OF THE TRADE-OFFS BETWEEN EMPLOYMENT AND INFLATION. FLETCHER NOTED THAT THE INFLATION RATE IN 1977 IS STILL BELOW TEN PERCENT PER ANNUM, ALTHOUGH HE EXPRESSED THE VIEW THAT THE RATE WOULD INCREASE. THE IMF, HE SAID, IS THE "ELEGANT GUARDIAN OF BABYLON". IT STANDS BACK AND ASKS "WHAT ARE YOU DOING TO CUT CONSUMPTION?" FLETCHER SAID THE MOST USEFUL APPROACH WOULD BE TO CUT WASTE. HE NOTED THAT THE SITUATION IN JAMAICA IS NOT DISSIMI-

LAR FROM THAT IN GEORGIA WHEN PRESIDENT CARTER HAD TO CONTEND WITH NUMEROUS GOVERNMENT BODIES. IN JAMAICA, HE SAID THERE ARE OVER 300 BOARDS OPERATING INDEPENDENTLY.

7. FLETCHER NOTED THAT THE CURRENT BUDGET TARGET OF \$1.3 BILLION WILL REQUIRE OVER \$200 MILLION IN BANK

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C O N F I D E N T I A L SECTION 2 OF 3 KINGSTON 3064

EXDIS

FOR ARA ASSISTANT SECRETARY TODMAN ONLY

OF JAMAICA SUPPORT. HE SAID HE WOULD PERSONALLY PREFER A BUDGET TARGET (HE STRESSED TARGET) OF \$1.1 BILLION OR \$1.2 BILLION WITH THE BALANCE (BRINGING EXPENDITURES US TO \$1.3 BILLION) TO BE USED ONLY IF EMPLOYMENT DROPS. HE NOTED THAT THE IMF WANTS A FIRM COMMITMENT NOT TO EXCEED A LESSER AMOUNT BUT THAT THE GOVERNMENT IS WARY OF MAKING SUCH A COMMITMENT SINCE, IF IT MUST BE BROKEN, IT WILL ONLY SERVE TO TAINT THE COUNTRY AND MAKE FUTURE BORROWING ALL THE MORE DIFFICULT. THE GOJ WOULD LIKE TO HAVE \$200 MILLION OF FLEXIBILITY.

8. AMBASSADOR TODMAN ASKED IF FLETCHER HAD A FEELING AS TO HOW FIRM THE IMF WAS IN ITS NEGOTIATING STANCE. HE ASKED IF THE "NO BANK OF JAMAICA SUPPORT" POSITION APPEARED TO BE A NEGOTIATING STANCE OR THE REAL REQUIREMENT? AMBASSAFMR TODMAN ALSO INQUIRED IF IT WOULD NOT BE POSSIBLE TO MAKE A FIRM COMMITMENT TO CUT SPENDING DOWN TO \$1.2 BILLION (TO USE A FIGURE FOR ILLUSTRATIVE PURPOSES) AND THEN TO MAKE A FURTHER "SERIOUS EFFORT" ON THE REMAINING \$1000 MILLION.

FLETCHER SAID THIS MIGHT BE A POSSIBILITY AND
SUGGESTED THAT THE SPENDING MIGHT BE KEPT AT THE
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\$1.3 BILLION LEVEL WITH A PROVISION FOR FURTHER
REVIEW AND PERHAPS CUTBACKS WHEN " WE GET AN IDEA OF
HOW INFLATION IS GOING."

9. AMBASSADOR TODMAN IEXPLAINED THE ZERO-BASED
BUDGETING PRINCIPLE WHICH HAS NOW BEEN IMPLEMENTED
WITHIN THE US GOVERNMENT AND SUGGESTED THAT A
SIMILAR MECHANISM MIGHT BE USED TO MAKE CUTS IN
THE JAMAICAN BUDGET. FLETCHER ADMITTED TO THE NEED
FOR NEW PROCEDURES TO IDENTIFY AREAS OF EXCESS
SPENDING.

10. FLETCHER THEN REVIEWED RECENT EVENTS NOTING
THAT UNTIL APRIL 22, THE JAMAICANSCENE HAD BEEN
SPIRALLING DOWN "LIKE A CRAZY HOUSE". SHOPS WERE
CLOSING ONE AFTER THE OTHER. SINCE APRIL 22, WHEN
THE NEW PRODUCTION PLAN WAS ANNOUNCED, THINGS HAVE
STABILIZED. THE UNIONS ARE ON BOARD, INFLATION IS
UNDER CONTROL AND THE DROUGHT IS OVER. (FLETCHER
NOTED THAT THE RAINS HAD BROUGHT ABOUT THE TRAGIC
DEATH OF TEN RUCCT DWELLERS JUST THAT DAY.) HE ALSO
SAIG THAT THE GOVERNMENT HAS BEEN BEEFED UP BY
BRINGING IN NEW TALENT TO HELP WITH ECONOMIC PLANNING.
EVERYTHING IS MOVING FORWARD EXCEPT THE IMF SITUA-
TION. 11. FLETCHER SAID THERE HAD BEEN A SERIOUS MISUNDER-
STANDING WITH THE IMF. THE ECONOMIC COUNCIL HAD
AGREED TO A GOVERNMENT SPENDING TARGET (HE AGAIN
STREESSED THE WORD "TARGET") AND HAD SO INFORMED THE
IMF. UNFORTUNATELY, THERE WAS A BREADKOWN IN COMMUNI-
ICATIONS AND THE IMF UNDERSTOOD THE TARGET TO BE A
COMMITMENT. HE, FLETCHER, HAD BEEN FORCED TO STEP
IN AND SET THE RECORD STRAIGHT WITH THE IMF. FLETCHER
SAID THAT MANLEY WOULD BE TALKING WITH CALLAGHAN AND
TRUDEAU DURING THE COMMONWEALTH CONFERENCE IN THE
HOPES THAT THEY COULD BRING THE IMF TO GREATER
POLITICAL SENSITIVITY.
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12. AMBASSADOR TODMAN NOTED THAT FLETCHER HAD PUT
HIS FINGER ON THE PROBLEM, I.E, THAT THE IMF LACKS
ANY CONFIDENCE IN JAMAICA. HE SUGGESTED THAT IO

MIGHT BE POSSIBLE FOR JAMAICA TO MAKE SOME PUBLIC BUDGET CUTS OR ISSUE ORDERS WHICH WOULD SERVE TO REIN- STILL SOME CONFIDENCE IN THE COUNTRY. FLETCHER AGREED AND NOTED THAT SPENDING IS ALREADY LAGGING WELL BEHIND THE BUDGET PROJECTION. HE OBSERVED THAT SPENDING TO DATE IN 1977 HAS BEEN AT ABOUT THE \$90 MILLION PER MONTH LEVEL AND THAT THIS WOULD LIKELY CONTINUE TO SEPTEMBER WHEN IT WOULD INCREASE SUB- STANTIALLY. (THIS IS A NORMAL SEASONAL FLUCTUATION.) FLETCHER PROPOSED THAT IT MIGHT BE POSSIBLE FOR JAMAICA TO HOLD ITS SPENDING DOWN TO THE \$90 MILLION PER MONTH LEVEL AND, IF THERE ARE ONLY MINOR INFLA- * 589,-46 3**3:5 , THE GOVERNMENT COULD INCREASE ITS SPENDING AS USUAL DURING THE LAST QUARTER OF THE YEAR. FLETCHER SAID THIS WOULD MAKE IT POSSIBLE TO DETERMINE IN SEPTEMBER OR OCTOBER WHETHER OR NOT A \$1.3 BILLION BUDGET IS REASONABLE.

13. FLETCHER THEN WENT ON TO DISCUSS THE DIFFICULTY OF COPING WITH INEFFICIENT SPENDING. HE NOTED THAT THE DAY AFTER THE PRIME MINISTER HAD ANNOUNCED A REDUCTION IN THE SCOPE OF THE JAMAICA TOURIST BOARD, THE BOARD HAD GONE OUT TO HIRE MORE PEOPLE. HE ALSO OBSERVED THAT INTERNATIONAL CONSULTANTS ARE STILL BEING HIRED WITH MASSIVE FEES, ETC.

14. AMBASSADOR TODMAN SAID THE US IS TAKING AN

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C O N F I D E N T I A L SECTION 3 OF 3 KINGSTON 3064

EXDIS

FOR ARA ASSISTANT SECRETARY TODMAN ONLY

ACTIVE INTEREST IN JAMAICA. HE EXPRESSED SATIS-

FACTION AT THE WORK OF THE RECENT JOINT ECONOMIC MISSION. HE NOTED THAT THE SECRETARY OF STATE IS NOW LOOKING AT THE ALTERNATIVES AND IS FAVORABLY INCLINED TOWARD HELP. HOWEVER, HE SAID, WE MUST STILL GO THROUGH THE COMPLICATED PROCESS WHICH REQUIRES LOOKING TO CONGRESS. THE U.S. SYMPATHIZES 100 PERCENT WITH JAMAICA'S PROBLEMS.

15. FLETCHER SAID HE FEELS THAT ONE OF THE BIGGEST FACTORS COULD BE THE EXPANSION OF TRADE OR A CHANGE IN US POLICIES ON THE ALUMINA STOCKPILING ISSUE. HE NOTED THAT THERE IS NO PROSPECT FOR PRIVATE INVESTMENT OVER THE NEAR TERM. TODMAN EXPRESSED INTEREST IN THE TRADE PROSPECTS AND FLETCHER RESPONDED BY NOTING THAT THERE ARE MANY OPPORTUNITIES BUT THAT JAMAICAN EXPORTERS HAVE NOT BEEN TAKING ADVANTAGE OF THEM. "A MORE MISERABLE CREW YOU WOULDN'T BE LIKELY TO SEE", HE SAID. FLETCHER SAID JAMAICA MUST GET ITS NON-TRADITIONAL EXPORTS UP FROM 100 MILLION TO 500 MILLION DURING THE NEXT 3-5 YEARS. MOST OF THIS WOULD GO TO THE US AND THE EC. HE SAID HE IS LOOKING INTO THE POSSIBILITY OF IMPORTING
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ALUMINUM INGOT AND FABRICATING IT LOCALLY IN ORDER TO TAKE ADVANTAGE OF THE 50 PERCENT VALUE-ADDED BENEFIT WHICH WOULD RESULT UNDER GSP (FROM THE BASIC PRICE OF JAMAICAN ALUMINA PLUS THE FABRICATION).

16. FLETCHER POINTED OUT THE WINDOW AND EXCLAIMED THAT THE JAMAICAN ECONOMY SHOULD BE BOOMING--"LOOK AT THE GREEN--EVERYTHING GROWS HERE. THE ECONOMY IS IN BAD SHAPE BECAUSE OF 12 YEARS OF BAD MANAGEMENT", HE SAID. HE NOTED THAT THE PRIME MINISTER IS BETTER AT INTERNATIONAL RELATIONS THAN HE IS AT DOMESTIC MANAGEMENT. HE IS THE MAO AND HE LACKS HIS CHOU EN LAI. HE SUGGESTED THAT THE IDEAL CHOU--PERHAPS THE ONLY MAN IN JAMAICA WITH THE ABILITY TO SERVE IN THAT CAPACITY WOULD BE EDDIE SEAGA (OPPOSITION LEADER). "EDDIE WOULD STRAIGHTEN OUT THE MISMANAGEMENT IN NO TIME", HE SAID. OF COURSE, HE ADMITTED, THIS WOULD NOT BE POSSIBLE UNDER OUR SYSTEM AND GIVEN THE PEOPLE. IT SHOWS ONE OF THE ADVANTAGES OF A ONE-PARTY SYSTEM. SOME ONE-PARTY SYSTEMS ARE QUITE DEMOCRATIC AND WE CAN NOT AFFORD THE LUXURY OF WASTING VALUABLE PEOPLE.

17. FLETCHER SAID THE LABOR MOVEMENT IS FRIGHTENED, AND IS CONCERNED OVER POSSIBLE CHAOS. BOTH THE LEFT AND THE RIGHT DO NOT WANT CHAOS. THE LEFT IS AFRAID

OF A MILITARY-LIKE COUP AND THE RIGHT IS AFRAID OF
THE LEFT.

18. AMBASSADOR TODMAN SAID THE US IS SERIOUSLY
INTERESTED IN JAMAICA'S PROBLEMS. HE NOTED SOME OF
THE CONGRSSIONAL OPPOSITION INCLUDING THAT OF
SENATOR SCHWEIKER BUT SAID THAT IN THE FINAL ANALYSIS,
HE WAS SURE THE US "WILL FIND SOME WAY" OF BEING
HELPFUL. HE EXPRESSED HOPE THAT THE INTERNATIONAL
SUGAR AGREEMENT WOULD BE CONCLUDED SOON AND THAT
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JAMAICA COULD AGAIN QUALIFY FOR GSP PREFERENCES ON
SUGAR. HE EXPRESSED HOPE THAT THE NEW AGREEMENT
WOULD ALLOW SUGAR PRICES TO STABILIZE AT A REMUNER-
ATIVE PRICE.

19. AMBASSADOR TODMAN THANKED MINISTER OF STATE
FLETCHER WHO, IN TURN, EXPRESSED APPRECIATION FOR
THE OPPORTUNITY TO DISCUSS THE MATTERS AT HAND.
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